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1971/09/27

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

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September 27, 1971

MEMORANDUM FOR: HENRY A. KISSINGER
FROM: B/GEN A. M. HAIG, JR.
SUBJECT: Southeast Asia Trip, September 20-26,
1971

On September 20, a team composed of three representatives of the National Security Council and one representative of the Department of State departed Washington to conduct a survey of the situation in Southeast Asia, with emphasis on the security situation in South Vietnam. The team returned to Washington via CINCPAC, arriving the evening of September 26. At Tab A is the team composition and a detailed itinerary.

The following is a summary of the findings concerning the political, economic, and security situations in the Republic of Vietnam.

Political Situation

Despite a deep sense of disappointment within our mission in Saigon with respect to the current political situation, President Thieu's decision to proceed with the October 3 referendum has caused:

- little controversy in the countryside where most voters live;
- vocal opposition among urban political groupings;
- a policy of violent confrontation in a very small minority of city dwellers with some leadership from the Vice President. Despite exaggerated press reporting, the violence thus far has stirred hardly a ripple in Saigon or elsewhere;
- no known serious coup planning;
- no serious threat to Thieu's prospects for a "victory" in the referendum.

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However, it is apparent that during the post referendum period, there is serious risk of an erosion of Thieu's control and support if he does not institute positive reforms designed to broaden the base of his new government and move, at least ostensibly, against the more flagrant kinds of corruption. A detailed report is at Tab B.

Economic Situation

The economic stabilization program continues to be very successful. Price increases in 1971 should be in the 10% to 15% range, well below the past levels of 30% to 40%.

President Thieu is planning another set of far-reaching reforms for October. They include a major devaluation. This devaluation will be the key step toward limiting inflation in 1972 to 10% to 15%.

There is a slight political risk within South Vietnam if import prices rise sharply as they will when the reforms are executed. One-third of South Vietnam's goods are imported. But President Thieu appears confident he can bear these risks; and the GVN appears determined to lessen its dependence on U.S. assistance.

The best way to insure that U.S. assistance is not cut by our critics in the Congress is to launch an economic development program. One has now been designed by our Mission and the GVN wants to implement it. Plans now are to launch this program on January 1, 1972, but it could be implemented earlier by President Thieu.

You will be informed later of the decisions required, and it may be appropriate for you to take a personal role in launching the program.

A detailed report is at Tab C.

Security Assessment

The latest reports on the pacification situation show that GVN control of the rural population is 69% countrywide. Of more importance, GVN control in southern South Vietnam (MR's III and IV) is about 75%; in areas in the northern part of the country (MR's I and II), it is around 50%.

The resources and plans for pacification in the Delta and Saigon areas practically guarantee continued pacification progress against likely

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enemy threats through 1972. In the northern part of the country, there is a serious question whether pacification progress can be sustained in the face of the likely enemy threats.

The potential problem results from U.S. redeployments and the incentives they could create for a North Vietnamese offensive. While there is practically no solid evidence on enemy intentions and capabilities for the upcoming 1971-72 dry season, analysis shows that if the enemy mounts an effort similar to last year's, he could set back the GVN's pacification effort at least temporarily in northern South Vietnam and perhaps temporarily occupy a highland city like Pleiku or Kontum. Of course, if one optimistically assumes the enemy will not infiltrate resources at a level approaching last year's level, the GVN's prospects are very good.

Vietnamese forces have the capability to pre-empt to some degree even the enemy's best efforts. They can do this if they take actions to strengthen their forces and execute cross-border operations to pre-empt enemy attacks.

The GVN must mobilize additional forces in the northern part of the country, increase the pay of combat soldiers countrywide, modify its draft and personnel allocation policies to raise the manning levels of its combat units to 90%, and remove selected division and regimental commanders who by all accounts border on the incompetent.

At your direction, Secretary Laird and General Abrams have sought these changes. But President Thieu's response has been slow. This trip provided me with an opportunity to impress again on President Thieu the need for decisive action in these areas. He seemed to understand what was called for and intends to act.

President Thieu is planning to execute cross-border operations toward Kratie in Cambodia and on a limited quick-stroke basis into southern Laos. These will play a key role in limiting Hanoi's options.

With regard to U.S. forces, the political and security situations in South Vietnam justify some acceleration in U.S. redeployments, beginning on December 1st.

Assuming no negotiated settlement, residual U.S. functions of helicopter, tactical air, and limited advisory, logistics, and intelligence efforts can be adequately maintained at a U.S. force level of approximately 50,000, provided it is correctly designed.

A detailed report is at Tab D.

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THE SITUATION IN THE COUNTRYSIDE

Introduction.

Vann in MR II, Cushman in MR IV and US officials in MR I provided valuable insights on the situation in the countryside.

Pacification.

Pacification progress as measured by the HES dropped slightly countrywide in August. But on close inspection it appears the GVN, while pre-occupied with the elections in the short run, can sustain its forward momentum in MRs III and IV. MRs I and II are potential problem areas. As a point of departure, consider the end of July control data below: (August control data are not yet available).

% of Rural Population Controlled by GVN

	July 1970	July 1971
MR I	64.7	62.6
MR II	47.5	48.1
MR III	63.3	76.4
MR IV	59.1	77.6
Countrywide	59.1	69.0

Gains in MRs III and IV in the last year have maintained countrywide pacification momentum despite almost no progress in MRs I and II.

General Cushman reported that the Cambodia border remains well protected by the high security in the border provinces. The enemy is fighting desperately to retain his base areas in the U Minh, Kien Hoa, and Vinh Binh. He appears to be sustaining his efforts in part by sea infiltration.

The MR IV commander, General Troung, is rated the best in ARVN by practically everyone (including John Vann who has worked with eight MR commanders).

Troung plans to supplement the 21st Division's efforts in the U Minh with two regiments of the 9th Division. His other major initiative is to transfer RF units out of the well-pacified provinces (e.g. Go Cong and An Giang) into the laggards (e.g. Dinh Tuong and Kien Giang).

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These actions will serve to guarantee pacification progress for the next year. But this assurance is gained at some risk to the rest of South Vietnam. The Delta has been seen as the area from which ARVN resources could be freed to replace US forces in MRs I and II.

Apparently the GVN would rather bear high risks in MRs I and II than low risks in MRs III and IV.

Pacification in MR II will progress over the next year if the North Vietnamese threat remains at current levels. John Vann expects the MR II threat to decline slightly, and that northern MR II will be pacified in two to three years. Pacification in southern MR II does not appear threatened.

There appears to be little doubt that in the absence of a major offensive in MRs I and II in 1972 the enemy will not succeed in turning back pacification. The big issue becomes what the enemy will do.

Vann is a brilliant practitioner of pacification with a superb tactical appreciation of the uses of territorial forces and their gum-to-teeth relationship with ARVN forces.

Enemy Options.

I asked Vann and others for the basis of their assessment of the enemy's strategy. Vann had no evidence for his view. His intelligence officers cited reasons far removed from MR II -- the floods in North Vietnam and the bombing of The Trail.

Sources in MR I cited the evidence that the enemy's logistics system would take another year to develop before a major offensive could be mounted south of Thua Thien.

The new road network in MR I is an important development. It appears that the enemy is building a new road system south and west into Thua Thien from Laos and the DMZ. The system will link the AuShau with the DMZ and have the significant characteristic of freeing enemy operations in northern South Vietnam from the constraint of the monsoon that closes the Ho Chi Minh Trail from May to September.

I do not view this road as a sign the enemy will wait until 1973 to test ARVN. I believe a test of some sort will come in 1972. Already some slight use of the road has been reported. But its significance lies in the ability it gives the enemy to move supplies through South Laos to MR II and, after the rains close this route in May 1972, to move supplies for attacks in Quang Nam and Quang Ngai.

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One can speculate endlessly about enemy intentions, but his capabilities are more susceptible to analysis.

Enemy capabilities severely limit his 1972 options. If I were Giap I would be thinking along the following lines:

-- Hit the highlands of MR II hard in Kontum and Pleiku. This would force the 22nd ARVN Division to move out of Binh Dinh. ARVN's role in pacification is vital in Binh Dinh in the near term. Vann swears they will not be pulled out under any circumstances. But they were pulled out in 1971, and when they returned had to fight their way back into Binh Dinh.

-- Infiltrate NVA into local force and guerrilla units into Binh Dinh and use these forces to attack Route 1. GVN RF-PF forces will pull into Route 1, uncovering the population to VC recruitment. GVN control in Binh Dinh is 23% today, down from 37% a year ago.

-- Attack simultaneously in southern MR I and across the DMZ to tie down the ARVN 1st and 2nd Divisions and whatever GVN reserves might be deployed northward.

How successful the enemy would be in executing the foregoing strategy depends on the initiatives ARVN undertakes next year. If ARVN attacks again in Laos (hopefully with different tactics), if another division is added in MR I, and if the MR II divisions receive new leadership, and if US air and combat support continue, northern South Vietnam would hold with moderate pacification losses. Kontum City or Pleiku might be occupied temporarily, with some associated political embarrassment but little lasting military significance.

The NSSM 99 analysis of the infiltration requirements for such an offensive estimated that 110,000 to 130,000 North Vietnamese would have to be infiltrated into South Vietnam.

In 1971 65,000 North Vietnamese arrived in South Vietnam of a total of 106,000 sent from North Vietnam. It is doubtful that Hanoi will feel compelled to send 26,000 into South Laos as it did in 1971. Thus the infiltration effort of last year, if repeated in 1972, would place the enemy within about 30,000 of the requirements for this strategy.

In 1968 infiltration arrivals were 250,000. But the scanty evidence we have on mobilization in 1971 (for possible infiltration in 1972) suggests that it is roughly on the order of the 200,000 mobilized before the 1970-71 dry season.

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In other words, Hanoi has the potential to mount a major offensive in northern South Vietnam which could inflict significant pacification losses on the GVN, challenge ARVN, and have important political and psychological implications for the GVN and US.

ARVN.

While it is clear that ARVN performance has improved markedly since our early 1970 report, serious problems remain.

On the positive side, the ARVN 1st and 2nd Divisions are top-notch combat units. They have recovered from LAMSON 719 and performed well during LAMSON 810. General Hollingsworth was raving at the skill and rapidity with which they set up firebases, and all recognized their strong regimental as well as divisional leadership.

The new 3rd Division to be formed beginning October 15, 1971 will be commanded by General Gari, currently the deputy commander of the 1st Division. He is rated very highly by the US advisors.

During LAMSON 810, the ARVN units in MR I were told to prepare a plan for another Laotian incursion. Only General Lam knew this was a feint to try to lure the North Vietnamese into a fight. At least the senior divisional officers, who knew of the plan, were most anxious to implement it.

But despite high morale and good leadership, MR I's ARVN could be stretched thin and hurt badly in 1972 if the NVA mounted a major offensive. There are too few ARVN. A conservative estimate of the additional forces needed in MR I include a division on the DMZ and a regiment in Quang Nam.

General Lam has already announced publically that a third division will be formed. One regiment from the 1st Division and upgraded RF units will make up the unit. Current plans do not provide for manpower from outside the region.

This means that there will be no increase in the men under arms in MR I unless additional RF-PF are recruited to replace those upgraded. Saigon is expected to approve an additional 6,000 RF-PF. But it will take time to recruit and train these forces and they are already sorely needed to support pacification in Quang Ngai and Quang Nam.

ARVN's slowness in meeting this deficit is not encouraging. Decisive action was in order nine months ago, and it still has not been taken.

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My own view is that ARVN will muddle through in MR I with heavy US air support and reinforcements from Saigon.

MR II demonstrates that poor leadership and a weak pacification situation are greater liabilities than inadequate numbers. Whereas in MR I the GVN's hand is strengthened by its solid control in Quang Tri and Thua Thien, in northern MR II there is no GVN stronghold on which to base ARVN's defense. ARVN is fully engaged in pacifying Binh Dinh.

Moreover, the ARVN leadership is poor. The 22nd Division commander asked over a year ago to be relieved. General Dzu and Vann have urged his relief. He is still there. The province chief is mediocre. On top of this, there are inadequate forces in the highlands. The NVA can easily create a situation in which reinforcements from Binh Dinh or Saigon will be necessary to prevent military defeat in the highlands.

Yet in this situation Vann contends he has all the resources he needs and swears ARVN will not be redeployed from Binh Dinh. He does not believe the enemy threat will increase.

MR III is also protected by poorly lead ARVN units. Vann reports the MR III commander, Minh, is weak and the new 5th Division commander is worse than General Hieu, his predecessor. General Abrams expects an enemy attack in MR III.

In MR IV, General Cushman gives high marks to the leadership of the MR and the 9th, 7th and 21st Divisions.

A serious countrywide RVNAF problem is the draft system. ARVN promises volunteers non-combat jobs. Not surprisingly, everyone volunteers and the rear areas are more than 100% manned, versus 70% or less for the maneuver units. If one is drafted into a combat unit he must remain there "for the duration" or death, or else desert or bribe his way to a rear area job.

Draft evasion is extreme. PSDF personnel represent a significant portion of the draft-eligible (18-39 yrs) but not mobilized population of 888,000. ARVN needed 300,000 men to build up and replace losses in FY 71, but it recruited only a net of 225,000. As of June 30, 1971, RVNAF assigned strength was 1,050,000 versus an authorized strength of 1,100,000.

Urgently required RVNAF manpower reforms include: (a) an end to exemption from combat duty for volunteers, (b) an attack on draft evasion in PSDF, (c) a fixed term of service rather than service for the duration, and (d) an end of deferment for college students.

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Overall, my assessment is:

- Concerted US pressure must be brought to bear to improve RVNAF leadership in MRs II and III.
- NSDM 118 (combat pay, 90% manning, leadership reform), should be implemented.
- If the GVN is unwilling to re-deploy personnel from the Delta, ARVN strength will need to be increased.
- ARVN should attack Kratie and conduct operations in South Laos in early 1972 in order to pre-empt an NVA offensive, but the operations should be short-term quick-strike efforts that minimize the damage to pacification resulting from the removal of ARVN from the populated areas.

US Forces

US redeployments should be accelerated beginning December 1, 1971 and continuing until approximately 50,000 remain in South Vietnam.

Headquarters staffs are fat, combat units are tired and stood down, and US Army Engineer Units are still building roads.

The key US functions of advisory assistance at the district level, air support, helicopter support, intelligence, Rome Plow operations, and logistic support continue to justify a U.S. presence.

Vann tells everyone the 56,000 in MR II could be cut to about 15,000. Cushman's 15,000 are hardly necessary in the Delta where VNAF flies all tactical air sorties, and the 53,000 in MR I could be pared down by removing the 101st Division and all the aids to the top-ranking civilians and Generals in DaNang. Advisory effort should be put on the economy.

General Lam has made a public statement in MR I that American combat forces will be gone within five months. General Hollingsworth, the Deputy US commander in MR I, told me "We can handle it if the 101st is withdrawn." The GVN is prepared for more rapid US redeployments.

Only Vann seems to be attacking the top-heavy structure of the US presence with the determination merited by this task. Elsewhere in Vietnam, particularly in DaNang, the headquarters are manned more fully

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than they were in 1967, and those occupying the sumptuous facilities are urging the withdrawal of the district chiefs.

Another reason for accelerating US redeployments is the threat posed by anti-Americanism incidents. Public support in the US will almost certainly not be aided by these incidents.

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THE INTERNAL POLITICAL SITUATION

PRE-REFERENDUM

There is a deep sense of disappointment within our own mission in Saigon with respect to the current political situation in Saigon. Ambassador Bunker believes all three principal political figures (Thieu, Ky and Minh) behaved irresponsibly but he holds Thieu mostly to account for his heavy-handed tactics.

Amongst the Vietnamese, Thieu's plans to go through with the October 3 referendum seems to have sparked little controversy in the countryside where most voters live and Thieu's leadership is widely recognized as having brought increased security, more effective government and greater prosperity. Nor are there any serious signs of dissatisfaction within the military establishment.

There is, however, vocal opposition to the referendum amongst a number of urban political groupings including the Vietnamese Senate which voted a resolution last Wednesday calling on Thieu to postpone and reorganize the elections. The resolution is in no way binding and Thieu will certainly ignore it. Another important group, the An Quang Buddhist faction, has issued a communique stating that it will neither take part in nor recognize the results of the referendum.

A very small minority of city-dwellers has adopted a policy of violent confrontation with the government over the issue of the referendum. There is evidence that Vice President Ky has been providing organizational and financial assistance to some of these extremists. Despite exaggerations by our own media, what little violence has occurred has caused hardly a ripple in Saigon or elsewhere in Vietnam and our mission is confident that the GVN can contain any disorders which may develop.

Your September 16 remarks to the press on Vietnam have had a tonic effect on your mission and the GVN and also seem to have discouraged Vietnamese oppositionists from believing that we are prepared to conspire with them to undermine Thieu.

There are no indications of any planning for a coup.

In brief, Thieu is going forward with his plans for a referendum. There seems little doubt it will take place and little doubt that Thieu will win.

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POST-REFERENDUM

We found a widespread sentiment that after the referendum Thieu will have to move swiftly to improve the image and effectiveness of his regime and broaden his base of political support. This is all the more critical in light of the disappointment of this summer and the resulting decline in Thieu's stock.

In this connection, when I spoke to Thieu about the need to broaden the base of his support in the post-election period he replied he was considering bringing into his government political figures supported by the An Quang Buddhists. Alluding to my conversation with Vice-President Ky, I also told Thieu I had reason to believe Ky might accept a meaningful political role in the post-referendum period. Thieu's response was non-committal although he appeared to take the suggestion seriously.

In our talks with Ambassador Bunker and other Mission officials a number of problem areas were identified where Thieu and the GVN might profitably move after October 3. Much of the discussion which follows represents only tentative thinking of the Mission on measures which Thieu might take. Much remains to be done in terms of weighing which measures are most desirable, which should have our highest attention and how they can be most effectively sold to Thieu.

With these caveats in mind, there follows a listing of problem areas identified:

-- Improvement of Thieu's Staff: Thieu's own Palace staff is criticized from many quarters as inexperienced and lacking stature. Improvements in his immediate entourage would be immediately noticed and could pay big dividends.

Criticism is particularly sharp of General Dang Van Quang, one of Thieu's closest advisors and widely regarded as dishonest and corrupt. He is cited as one of a number of convincing examples that Thieu has thus far been much too complacent about cleaning up his government.

-- Broadening of Thieu's Political Contacts: Although he goes through the motions of consulting others before making important decisions, Thieu does not enlist a sense of participation even amongst his natural political allies. He needs to broaden the scope and number of his political contacts. Among the groups he has neglected or dealt with in a peremptory fashion is the leadership of both Houses of the National Assembly. He has also not made fullest use of his Prime Minister and Cabinet.

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-- Working More Closely with Major Political Elements:

The An Quang Buddhists are considered the key element to a substantial widening of the base of the regime. Alliance is not possible but accommodation is. In fact, when I mentioned to Thieu the need to broaden the base of his support in the post-election period he replied that he was considering bringing into his government political figures supported by the An Quang Buddhists.

There are other political groupings clearly amenable to working closely with the administration such as the Progressive Nationalist Movement (PNM), the most vigorous pure political party. The naming of the PNM's head Professor Nguyen Van Bong, a highly respected civilian, as Prime Minister would obviously cement relations; but the executive could use PNM talent in other ways, including the Lower House where Thieu's majority will be less clear-cut than it was during his first term.

-- Civilianize and Further Improve the Administration:

The constitution provides for election of Province Chiefs and Mayors during the President's second term. This involves some risks, particularly in less secure areas, and some obvious political advantages. A phased program over the next several years, beginning with elections for mayors and moving progressively from the more to less secure areas in the countryside, might be the best way to work the complications and risks which would be involved in the abrupt and wholesale replacement of Vietnam's military administrators.

-- Move Against Corruption: Thieu's actions in this sphere have been inadequate. He has not spoken out against corruption as strongly as he should and he has not removed the more notoriously corrupt officials. He has also not vitalized the Inspectorate, which is constitutionally charged with investigating corruption, and he is especially reluctant to support the Inspectorate in actions involving the armed forces.

There are those who would argue that Thieu cannot move against corruption without undermining his own power base. While there may be some truth to this, it is also true that many, including many of RVNAF's dedicated military professionals, would welcome some crack-down on corrupt practices. Their attitude towards Thieu could then shift from tacit acquiescence to enthusiastic support.

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-- Military Reforms: Apart from the corruption issue referred to above, there remains a pressing need to improve the promotion and assignment system. Influence and family connections continue to be excessively rewarded while merit and dedication are often overlooked.

-- New Moves on Peace: Thieu's public stance on negotiating issues is stated in entirely negative terms through the "4-No's" (No coalition, no neutrality, no further partition, no legal Communist Party in South Vietnam.) Ambassador Bunker believes strongly that Thieu must seek ways to state his policy in positive terms in order to enhance the psychological appeal of his platform and enhance his government's image in and out of Vietnam.

* * *

Thus as Thieu moves into his second term, he has many things going for him: an improved military and security picture, a strengthened army and governmental apparatus and the confidence which comes from having governed for 4 years.

On the negative side, Thieu blundered this summer; this has generated unrest and it places a greater premium than ever before on his moving to repair the more glaring deficiencies in his leadership. If he does not, then unrest will continue, the regime will be forced to apply ever increasing measures of repression and Thieu's legitimacy will further erode.

If Thieu seizes the opportunity and makes even modest gestures in the directions outlined above, then he should be able to further consolidate the gains of his first term and continue to provide the kind of leadership and stability which helped South Vietnam achieve its remarkable successes of the past three years.

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THE ECONOMY

The Stabilization Program.

The economic stabilization program continues to be effective despite the political uncertainties created by the controversy over the Presidential election.

1971 prices, which had risen by only six percent up to mid-August, have now risen by ten percent through mid-September. This increase results largely from an increase in the price of rice occasioned primarily by contingency hoarding by those who believe military or political developments could impede the flow of goods or cause the currency to depreciate.

The economics of the situation are favorable and do not provide a financial justification for hoarding. This is borne out by the stability of gold and dollar prices on the black market, evidence that the financially sophisticated moneylenders do not expect a sharp deterioration in the value of the piaster.

The monetary gap analysis shows that the money supply -- the driving factor behind price increases in Vietnam -- has increased by eleven percent thus far in 1971. Sooner or later proportional price increases can be expected. In other words, the recent jump in prices, even if rolled back in the event the political situation improves, can be expected to be re-established within a few months.

About a five percent expansion in the money supply can be expected for the balance of the year. Such an increase would push the 1971 gain to 16 percent, which represents the upper limit that can be tolerated if inflation is to be maintained at reasonable war-time rates.

1972 gap projections by US and Vietnamese analysts show an expected gap of 12 to 13 percent, assuming the reform package described below is implemented in October as planned.

The Reform Package.

President Thieu has already approved an economic package for implementation in October.

This reform package has been prepared by the very bright GVN team with advice and urging from Mr. Cooper and his staff. It is one of the most far-reaching ever contemplated by the Vietnamese.

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The proposed tariff and exchange rate changes are designed to move the GVN economy away from its present over-regulated and corruption-prone state to an open economy relying to the fullest extent possible on market mechanisms.

The effective exchange rate for imports from the US (CIP) will rise from an average of about 175 to 275 piasters per dollar,

Imports from non-US sources, financed from GVN dollar reserves built up from DOD purchases of piasters, will be sold at a 400 piaster per dollar rate, well above the current 275 rate.

In selecting these new rates the GVN has exceeded slightly, for the first time, our demands. The higher rate yields more piaster revenues for the GVN budget and thereby helps close the monetary gap. (If the revenues were not forthcoming the money supply would have to be increased by printing money.)

A higher rate, because it makes imports more expensive, will also lessen the dependence of the Vietnamese economy on imports and is the first step toward reducing the long term dependence on the Vietnamese economy on US aid.

The major risk of these reforms is that the increases in the prices of imported commodities (which represent one-third of those utilized by the GVN economy) and whatever sympathetic and speculative price increases they touch off will cause political unrest.

By his tentative decision President Thieu appears willing to bear these risks, but he is probably assuming that after the early-October elections he will be firmly in power.

If there is a further deterioration in the political situation after the election, consideration may have to be given to a less sharp devaluation on essential commodities in order to decrease the price increases on essential items so as to lessen the political short run risks.

But there is probably a more overpowering political reason for pushing ahead with the now-proposed package regardless of the internal political situation: a large devaluation designed to lessen Vietnamese dependence on imports will leave Vietnam less exposed to any effort on the part of the Congress to cut US assistance for Vietnam. Concern for such a development probably underlies the GVN thinking that produced the reform package.

Another critical benefit of these reforms is that they will permit the US and GVN to take the final steps to open licensing of imports. Present import procedures are an invitation to the large-scale corruption that the GVN economy and political system can no longer afford.

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The GVN plans to move ahead later this year on the badly needed domestic tax reform.

Another reform Cooper promised to try to secure later in 1971 after the FY 72 aid appropriation is passed, is a GVN commitment to joint quarterly review of the exchange rate. If, despite our best-laid plans, internal prices continue to rise, the GVN needs to recognize, by explicit agreement, that periodic exchange adjustment must be made on a routine, semi-automatic basis. DOD has pushed hard for this element of the reform package. The last year of economic stability places us in a position to seek GVN concurrence in it.

Economic Development.

Mr. Cooper has recommended and Washington is considering the establishment of an economic development fund. Such a fund would represent an important measure to re-orient the US assistance effort from stabilization to development.

AID Washington has finally become receptive to the idea of a development fund and has agreed to include it in its FY 73 budget request.

Mr. Cooper wants to implement the fund on January 1, 1972, or in FY 72. It appears this can be done without going formally to Congress, although for one of the possible variants under consideration, AID contends Congressman Passman will have to be notified. The most plausible alternative is to use a portion of the FY 72 economic stabilization fund to capitalize a piaster fund for development. Cooper favors this approach.

Wayne Smith's staff will be working with OMB and AID to accomplish this, but it may require a final instruction from you if AID balks at Cooper's proposal. Wayne Smith will follow this and keep you informed.

CIP.

As you know, the procedures for importing US goods into South Vietnam need reforming if they are to facilitate the flow of US exports and conform with our overall policy of seeking an open economy for Vietnam.

After your visit in July, State was asked to undertake a study of the procedures and alternative modification thereof. This study is almost completed and will be soon forwarded to you for decision.